

The Securities and Futures Commission
54/F One Island East
18 Westlands Road
Quarry Bay, Hong Kong

Re: Consultation Paper on the Management and Disclosure of Climate-related Risks by Fund Managers

Ladies and Gentlemen:

I am writing to you on behalf of BMO Global Asset Management¹ (BMO GAM), whose institutional and retail clients collectively represent over US\$ 269 billion of assets. In addition, BMO GAM has been authorised to vote and/or engage in dialogue on behalf of a further 37 other investment institutions with assets totalling over US\$ 325 billion.

At BMO GAM, portfolio investment decisions are always made in the best interests of our clients. Supporting these investment decisions is the belief that prudent management of environmental, social and governance (ESG) issues, such as climate change, can have an important impact on the creation of long-term investor value. Alongside this work we also see our active ownership activities, including proxy voting at company meetings and direct engagement with companies, as part of our duty as an investor acting in the best interest of our clients.

BMO GAM appreciates the opportunity to comment on the Securities and Futures Commission's (SFC) proposed amendment to the Fund Manager Code of Conduct (FMCC), which requires the consideration of climate-related risks in investment and risk management processes.

Overall, we support the SFC to approve this amendment, and have responded to the questions in the consultation paper as below:

Response to question #1: "Do you have any comments on the SFC's proposal to focus on climate change or should a broader spectrum of sustainable finance should be considered in developing the requirements?"

Enhancing the overall ESG performance of our investee companies is a core value at BMO GAM. We do recognise that, when compared to other ESG risk factors, climate change is unique in the way that fund managers will need to take an ultra long-time horizon to fully identify the risks. It also requires fund managers to develop a robust process to constantly prepare for the possibilities of different emission scenarios as the future unfolds.

Given the significant undertaking, we support SFC's proposal to initially focus on climate change. From our extensive experience of managing climate risks, we have found that, different ESG factors can be interlinked, and that addressing climate risks would test our capability of handling other risks at the same time. Having the SFC to signal the intention to cover all other ESG factors in the future would hopefully encourage the fund management industry to collaboratively address these fundamental issues. Therefore, we would welcome future effort in extending the requirements covering other ESG themes.

Response to question #2: "Do you agree that at the initial stage, the SFC's proposed requirements should apply to the management of CISs but not discretionary accounts?"

We do not have a strong view on initially applying the proposed requirements to CISs. However, we would welcome an indicative timeline of applying the same mandatory requirements for discretionary accounts, if this is the policy intent.

Response to question #3: "Do you agree that the SFC should make reference to the TCFD Recommendations in developing the proposed requirements so as to minimise fund managers' compliance burden and foster the

¹ BMO Global Asset Management is the brand name for various entities of BMO Financial Group that provide investment management services, institutional client services and securities products. The entities include BMO Global Asset Management (Asia) Limited, a licensed corporation regulated by the Securities and Futures Commission of Hong Kong.

development of a more consistent disclosure framework? Other than the TCFD reporting framework, is there any other standard or framework which in your opinion would be appropriate for the SFC to refer to in developing the proposed requirements?"

We agree with the TCFD reference as part of the amendment, as it is a well recognised framework guiding our internal climate risk management framework.

We do hope to take this opportunity to highlight that, alongside many other industry peers, BMO GAM has been reporting to the PRI portal, which has already integrated the TCFD Recommendations. It allows fund managers to benchmark amongst ourselves and to the known best practices. We would welcome a continuation of the high degree of synchronisation across different regulatory requirements and reporting frameworks in the future.

Response to question #5: "Do you have any comments on the proposed amendment to the FMCC requirements, baseline requirements and enhanced standards? Please explain your view."

We welcome the amendment and believe that it has struck a good balance between the "baseline" and "enhanced" standards.

There are two major comments about the technicality of some of these requirements:

Firstly, we do believe that there is still room for improvement on the suggested tools and metrics to quantify climate-related risks, which are baseline requirements under the risk management section in the amendment. We believe that qualitative assessment should be accepted initially, allowing time for the risk management team to fully understand the vast amount of assumptions often built-in to the climate scenarios. In our experience, such understanding is essential to allow us to develop our own scenarios according to changes of global emissions in the future.

Secondly, we believe that weighted average carbon intensity should not be a metric applied as a result of climate risks found to be material, which is how it is described in the enhanced standard of the risk management section. The main reason is that carbon intensity, which is an impact measurement, may not fully explain climate risks. Internationally, investors and companies are exploring the concept of "temperature alignment" of any given business strategy across industries. It is a fusion between climate impact and climate risk and would be a better fit to your intent proposing the enhanced risk management standards. As such concept requires further development and consent amongst the industries, we recommend not to make weighted average carbon intensity a mandatory requirement as part of the risk management section. However, we do support it to be kept as a mandatory disclosure requirement at fund level as described in other parts of the standards.


Response to question #8: "Do you agree that disclosures of quantitative climate-related data such as WACI should only be applicable to Large Fund Managers having regard to the resources required and the size of assets covered? Do you agree that at the initial stage the disclosure of the WACI should be made at the fund level instead of the entity level?"

We agree that at the initial stage the disclosure of the WACI should be made at fund level due to the exclusion of discretionary accounts as per the proposed amendment.

In conclusion, we warmly welcome SFC's proposed amendment and expect it to vastly improve market practices on this important topic. We appreciate the opportunity to submit this comment and are available to answer any questions.

Sincerely,

BMO Global Asset Management

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